# INFORMED BUDGETEER

## OCTOBER CBO DEFICIT ESTIMATES

| FY 1997 Projections (In Billions of Dollars) | | | |
|---|---|---|---|
| | Budget Resolution | August Estimate | Latest estimate |
| Receipts | 1,469 | 1,578 | 1,579 |
| Outlays | 1,622 | 1,612 | 1,602 |
| Deficit | 153 | 34 | 23 |

SOURCE: Congressional Budget Office- Monthly Budget Review October 3, 1997.

## HOW DO WE ADDRESS INCOME INEQUALITY?

- Recently released Census data on family income for 1996 allows us to take a close look at how different income groups are faring. The chart below shows that, between 1995 and 1996, after adjusting for inflation, the average income of the poorest fifth of families fell by $210.

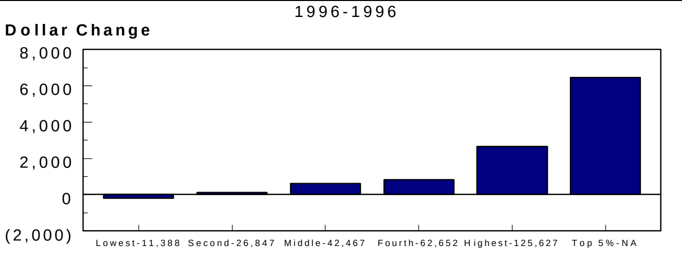
- Real incomes grew for all other income quintiles, but the higher you started in 1995, the more your income grew in 1996. For example, incomes for families in the middle quintile rose by $630 last year, while incomes for families in the top 5 percent rose $6,443. On a percentage basis, incomes in the second quintile rose about 0.5 percent, incomes in the third and fourth quintile rose about 1.5 percent, and incomes in the top quintile rose more than 2 percent in real terms in 1996.

- What can we do? We know that the income gap can not be narrowed by taxing the rich. The 1993 tax increase supposedly primarily affected "the rich," but it did not help incomes at the lower end rise faster. Chairman Domenici, in a December 1996 letter to Majority Leader Lott addressed this issue.

- Chairman Domenici pointed out that economic growth theorists stress the crucial role that education and job training have played in determining which countries experience the most rapid rise in per capita incomes. Domenici suggested that in order to boost skill levels overall, we must introduce competition into our education system to ensure that poor, inner city youths have access to the same quality education found elsewhere in the U.S.

- Domenici went on to say that we must couple these higher skill levels with a more vibrant business environment, to ensure that high-quality jobs await our improved workforce. As such, he concludes that Congress must pursue aggressive tax and regulatory reform which encourages capital formation and small business creation.

**Change in Average Real Family Income**
1996-1996




Source: Income Summary Measures families in the US, 1947-1996, Census bureau

## IF IT'S OCTOBER, IT MUST BE CR TIME

- As hoped, Congress passed a clean Continuing Resolution (CR) to provide temporary funding for federal programs and agencies funded in the twelve regular appropriations bill. Mil-con was the only bill signed into law by Oct. 1.

- The CR continues funding at the current rate (FY 1997 level) through Oct. 23 to give Congress and the President an opportunity to complete action on FY 1998 appropriations bills.

- Since the enactment of the CR on September 30, the President has signed the Military Construction Appropriations bill into law.

- Awaiting Presidential action are the Legislative Branch, Defense, and Energy and Water Development Appropriations bills that cleared Congress before October 1. The Treasury and General Government bill is now ready for the White House.

- All but one FY 1998 bill -- the District of Columbia bill -- is through or in conference. The Agriculture conference report is filed. The VA-HUD and Interior conferences are completed and reports are about to be filed. The Labor-HHS, Foreign Operations, Transportation, and Commerce-Justice-State conferees are likely to meet the week of October 6 prior to the Columbus Day recess.

- Now for the new twist -- the Line-item Veto! All bills are being given scrutiny for possible items for the President's line-item veto pen. Stay tuned for Round 2!

**STATUS OF APPROPRIATIONS BILLS IN THE SENATE**
($ in billions, Discretionary Spending)

| | | Current $ | | 602 (b) | | Difference | | |
|---|---|---|---|---|---|---|---|---|
| | | BA | OT | BA | OT | BA | OT | Status |
| Ag | Non-def | 13.8 | 13.9 | 13.8 | 14.2 | -0.04 | -0.2 | Conf. |
| CJS | Defense | 0.3 | 0.3 | 0.3 | 0.3 | -0.02 | -0.02 | Passed |
| | Non-def | 25.6 | 25.2 | 25.6 | 25.5 | -* | -0.3 | |
| | Crime | 5.2 | 3.4 | 5.2 | 3.4 | -- | -0.02 | |
| | TOTAL | 31.1 | 28.9 | 31.1 | 29.2 | -0.03 | -0.3 | Conf. |
| Defense | Defense | 248 | 244 | 247 | 244 | -- | -0.07 | |
| | Non-def | 0.03 | 0.03 | 0.03 | 0.03 | -- | -- | |
| | TOTAL | 248 | 244 | 248 | 244 | -- | -0.07 | ReprtdConf. |
| DC | Non-def | 0.8 | 0.5 | 0.8 | 0.5 | -- | -- | |
| Energy | Defense | 11.5 | 11.9 | 11.6 | 11.9 | -0.06 | -- | |
| | Non-def | 9.2 | 9.0 | 9.2 | 9.0 | -* | -0.01 | |
| | TOTAL | 20.7 | 20.9 | 20.8 | 20.9 | -0.06 | -0.01 | Passed |
| For. Ops. | Non-def | 16.8 | 13.1 | 16.7 | 13.1 | 0.1 | * | Passed |
| Interior | Non-def | 13.7 | 13.7 | 13.7 | 13.7 | -* | -- | Passed |
| Labor | Non-def | 79.6 | 76.0 | 79.6 | 76.0 | 0.05 | -0.03 | |
| | Crime | 0.1 | 0.07 | 0.1 | 0.07 | -- | -- | Conf. |
| | TOTAL | 79.7 | 76.0 | 79.7 | 76.1 | 0.05 | -0.03 | Enactd |
| Legbranch | Non-def | 2.3 | 2.3 | 2.3 | 2.3 | -- | -- | Passed |
| Mil. Con. | Defense | 9.2 | 9.9 | 9.2 | 9.9 | -- | -0.06 | |
| Transp. | Defense | -- | 0.06 | 0.3 | 0.3 | -0.3 | -0.2 | Conf. |
| | Non-def | 12.2 | 36.9 | 12.2 | 36.9 | -- | -* | |
| | TOTAL | 12.2 | 37.0 | 12.5 | 37.2 | -0.3 | -0.2 | |
| Treasury | Non-def | 12.6 | 12.4 | 12.6 | 12.4 | -* | -* | Passed |
| | Crime | 0.1 | 0.1 | 0.1 | 0.1 | -- | -* | |
| | TOTAL | 12.7 | 12.5 | 12.7 | 12.5 | -* | -0.01 | |
| VA -HUD | Defense | 0.1 | 0.1 | 0.1 | 0.1 | -* | -* | |
| | Non-def | 68.7 | 79.6 | 68.7 | 79.6 | -* | -* | |
| | TOTAL | 68.9 | 79.7 | 68.9 | 79.7 | -* | -* | |
| Reserve | Defense | | | * | * | -* | -* | |
| | Non-def | | | 0.8 | 0.07 | -0.8 | -0.07 | |
| TOTAL | Defense | 269 | 266 | 269 | 267 | -0.4 | -0.4 | |
| | Non-def | 255 | 283 | 256 | 283 | -0.7 | -0.6 | |
| | Crime | 5.5 | 3.6 | 5.5 | 3.6 | -- | -0.03 | |

[a]Less than 50 million. NOTE: CBO/SBC scoring, details may not add to totals due to rounding.

## EUROPEAN PUBLIC RETIREMENT PROGRAM: PART2

- The dramatic increases in the elderly population relative to working age people outlined in last week's *Bulletin* will put tremendous strains on government budgets in most of the European countries.

- With the exceptions of Great Britain and Sweden, European countries have traditional pay-as-you-go pension schemes, much like Social Security in the United States. Current generations of workers are paying for current retirement costs; there is no provision to save -- either privately or through government surpluses -- for the coming increases in retirement costs.

- The Organization for Economic Cooperation and Development (OECD) has produced revealing simulations of the problems most developed countries face in the next century with these kinds of pension programs.

- First, the OECD estimated the net present value of the unfunded liabilities for the pension programs (measured as a percentage of 1994 GDP), by country. The net present value equals all employer and employee contributions through 2070 plus current assets minus all expected pension payments. As shown in the table below, compared to several European countries, the U.S. has a relatively low unfunded liability at 23% of 1994 GDP. France, in contrast, has an unfunded liability exceeding 100 percent of 1994 GDP in its public pension programs.

- The OECD analysis then simulates how these pension liabilities (as well as growing health care costs) will affect government budgets and national savings rates. The OECD analysis makes clear that maintaining the status quo in face of aging populations could have devastating effects on worldwide savings rates.

- Net national savings in the US is forecast to drop from 3.9 percent of GDP in 1995 to -1.8 percent in 2030 under the OECD's optimistic scenario. Under more pessimistic assumption, US ***dis***savings would go to -7.2% of GDP in 2030.

- For the 18 countries in the analysis, the OECD simulation shows a weighted average drop in national savings from 7.4 % of GDP in 1995 to between 0.3 % and -7.6 % of GDP in 2030 as a result of increasing public pension and health care obligations.

- The OECD concludes: **"Policies aimed at higher national savings rates over the next few years are therefore prudent, and reducing government dissaving may be the most direct way of achieving that aim."**

**Public Pensions and National Savings**
(Present value % of 1994 GDP - Savings Rate % of GDP)

| | Net Present Value of Public Programs | Nat'l savings rate 1995 | Nat'l savings rate 2030 |
|---|---|---|---|
| Germany | -62% | 9.8% | 0.3% |
| France | -102% | 6.4% | -0.7% |
| United Kingdom | -24% | 4.3% | -1.0% |
| Italy | -60% | 8.1% | 0.2% |
| Belgium | -153% | 14.4% | 9.5% |
| Austria | -93% | 12.2% | -0.5% |

## BUDGET QUIZ

QUESTION: Do outlays always result from budget authority?

Answer: Not necessarily. Budget authority is the authority provided by law for the Federal government to incur financial obligations. In some cases, budget authority does not result in outlays. For some defense programs, Congress will provide an appropriation for a defined period of time, say a year. In these instances, a portion of this budget authority may lapse before it is obligated. Any amount of budget authority that lapses does not result in outlays.

- An earlier bulletin mentioned a possible $15 billion budget authority adjustment to the Budget Enforcement Act's caps that will be made if the Appropriations Committee provides for a quota increase to the International Monetary Fund (IMF). When the U.S. increases its share to the IMF, it transfers dollars to the IMF in exchange for special drawing rights (SDRs).

- The budget records budget authority associated with the U.S. share of the quota increase to the International Monetary Fund (IMF). The budget's treatment of these IMF quota increases has varied over time. Before 1969, the budget recorded the U.S. contribution as an outlay. The President's Commission on Budgetary Concepts concluded the U.S. contribution represented an exchange in monetary assets and from 1969 to 1980, the budget recorded no budgetary impact from a quota increase in the IMF. Beginning in 1981, the Congress insisted that the quota increase be provided through the appropriations process and the budget has recorded the quota increase as budget authority since.
- It's unclear whether this contribution should be treated as budget authority. As the Budget Concepts Commission concluded in 1969, the U.S. contribution represents a exchange of monetary assets. In exchange for its contributions in dollars, the U.S. gets Standard Drawing Rights and a liquid claim on the IMF in return. Also, the U.S. has a veto power over the IMF's decisions. All of these points suggest that the contribution should not be booked as budget authority.

- On the other hand, the U.S. clearly is making a financial contribution to the IMF. Therefore, it may make sense to record this financial transaction by the federal government. Budget authority may not be the proper classification, but it represents a means of recording congressional action on the U.S. contribution to the IMF.

## CALENDAR

### SBC FALL SCHEDULE:

October 8: **Open staff briefing** by DoD Office of International Security Affairs, Director of NATO Affairs Lisa Bronson and State Dept officials on NATO Expansion Policy & Cost issues; Dirksen 608; 10:30 am.

October 16: **Open staff briefing:** EMU with Werner Schule, Counselor for Economic Affairs. Dirksen 608; 3:00 pm.

October 17: **Open staff briefing:** European Pension Programs, Estelle James, Lead Economist, Development Research Group, The World Bank. Researchers from the International Monetary Fund. Dirksen 608; 10 am.

October 21: **SBC Hearing:** Impact of EMU on US Economy. Witnesses include: Deputy Treasury Secretary Summers, C. Randall Henning of the Institute for International Economics (IIE) and Giovanni Ravasio, Director-General, DGII of the European Commission. Dirksen 608; 10:00 am.

October 23: **SBC Hearing:** Europe's Long-Term Fiscal Challenge (Pensions): Lessons for the US. Witnesses include: Koen De Ryck, President, Pragma Consulting, Brussels and Richard Disney, Institute for Fiscal Studies, London. Dirksen 608; 10:00 am.

October 28: **Task Force Hearing** International Affairs, Dirksen 608; 10:00 am. Education Task Force Hearing; Witness include William Bennet, former Secretary of Education. Dirksen 608; 2:00 pm.

October 29: **SBC Hearing:** NATO expansion policy and the implications of European Economic Union for US NATO expansion policy and for "burden sharing" among NATO partners. Witnesses include former Secretary of State and Secretary of the Treasury James Baker. Dirksen 608; 10:00 am.

October 30: **Task Force Hearing:** Social Security; Dirksen 608; 10:00 am

October 31: **Open staff briefing** by CBO & GAO on the budget and program constraints in the DoD Budget, NATO Expansion Costs, the affordability of NATO expansion in a constrained budget; Senior Researchers from CBO and GAO; Dirksen 608; 10:30 am.

November 4: **SBC Hearing:** DoD budget constraints, additional NATO expansion costs and their affordability in this constrained budget. Witnesses include Cindy Williams Director of CBO's National Security Division and Butch Hinton, Assistant Controller General of GAO's National Security and International Affairs Division ("NSIAD"). Dirksen 608; 10:00 am.

✎EDITOR'S NOTE: We goofed: The US Federal Government balances as a percent of nominal GDP printed in last week's *Bulletin* were incorrect- we left out the negative signs. They should have been: 1993:-3.9, 1994:-3.0, 1995:-2.3, and 1996:-1.4.